ISSUE DATE: July 19, 1995

DOCKET NO. G-007/M-95-200

ORDER APPROVING ENTITLEMENT AND ALLOCATION CHANGES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Dee Knack	Commissioner

In the Matter of Northern Minnesota Utilities' Request for Approval to Change its Demand Entitlements and the Allocation of Demand Costs Amongst its Customer Classes

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PROCEDURAL HISTORY

On March 13, 1995, Northern Minnesota Utilities (NMU or the Company) submitted a demand entitlement filing for the following changes:

1) reduction in Large Volume Service (LVS) demand allocation of 3,600 Mcf/day, effective September 1, 1994;

2) reduction of Northern Natural Gas Co. (Northern) TF12-Base demand entitlements by 3,600 Mcf/day, effective November 1, 1994;

3) exchange of 9,290 Mcf/day of TF12 Base for 9,290 Mcf/day of TF12 Variable, effective November 1, 1994;

4) reduction in LVS demand allocation by 50 Mcf/day, effective December 1, 1994.

On April 12, 1995, the Minnesota Department of Public Service (the Department) filed its comments. The Department recommended that the Commission accept all four of NMU's proposed changes. In addition, the Department recommended that the Commission require NMU to perform and submit to the Commission for review a design day study for its firm customers prior to the 1995-96 heating season which begins November 1995.

On June 29, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. Commission Action

The Commission has reviewed NMU's proposed changes in light of the circumstances brought to light in the course of this docket and will approve them.

B. Impact of Changes Summarized

The changes approved may be summarized as follows:

While NMU as a whole has lower demand costs of approximately $169,336 per year for the combined changes in the instant filing, this amount is spread over a smaller customer base due to the fact that one of the Company's large volume service customers canceled its sales contract with the Company and became a transportation-only customer, effective September 1994. Hence, all firm customer classes will experience higher demand costs due to these changes.

Based on an annual usage of approximately 115 Mcf, each residential customer will pay approximately $8.18 more per year. Large General customers will pay about $12.23 more per year based on an average annual usage of 172 Mcf. These increases represent approximately one percent of a customer's total annual bill. The average LVS customers will pay an additional $8,358 per year based on a daily demand entitlement level of 1,225 Mcf. This increase, due to the 2-part rate charged LVS customers, equals approximately three percent of an average LVS customer's total annual bill.

C. Individual Changes Analyzed

1. Request to allocate 3,600 Mcf/day of demand costs from the Large Volume Service Class to all firm sales class customers between September 1, 1994 and November 1, 1994

Effective September 1, 1994, one of NMU's LVS customer switched from firm sales to interruptible transportation. Although NMU found no alternate customer or customers to use these entitlements, the Company had a continuing contractual obligation to purchase that amount from its supplier, Northern, until November 1, 1994 when, pursuant to its contract with Northern, it was able to reduce its demand commitment to adjust for the loss of the customer.

Rather than absorb this stranded cost, NMU increased the demand costs of all its firm sales customers through the PGA, effective September 1, 1994 and requested authority to do so in its March 13, 1995 filing.

Having reviewed the matter thoroughly, the Commission will grant the Company's request this time and allow the Company's allocation of these costs to all its firm customers to stand. Loss of a large firm customer due to competition from alternative suppliers of commodity gas supplies was not so clearly foreseeable when the contract between NMU and the customer was signed to warrant requiring the Company to absorb this loss. However, the matter raises serious concerns which the Commission will address.

The first concern is for the potential of such events to recur, i.e. loss of a customer resulting in potentially stranded costs. As the energy market becomes more competitive, the potential for losing customers and stranding costs increases. The Commission would expect that the Company would, henceforward, take reasonable steps to protect itself in these times, including adopting appropriate contractual clauses with its larger customers and/or with its supplier, Northern.

In allowing the Company to spread this loss among all firm customers this time rather than requiring the Company to absorb the loss, the Commission understands that the Company is alerted to the problem and has, in fact, taken some action to protect itself and its ratepayers from stranded costs left by customers switching to interruptible transport service. In light of the Company's experience in this matter, it is expected that the Company will undertake a range of reasonable precautionary measures, including a review all of its tariffs and contracts to make sure that they include adequate safeguards, e.g. exit fees, etc., for NMU and its customers.

Cause for additional concern is that the Company made this change to its demand allocations effective September 1, 1994 but did not request authorization from the Commission until March 13, 1995. The Company should take care to make timely filings on such matters in the future. It should be clear to the Company that the Commission considers it most appropriate that the Company arrange its affairs so that such proposals are unnecessary. Any such future proposal is by no means assured of approval and will be reviewed on its merits when filed. Timely filing of such proposals will be considered in determining their reasonableness.

2. Request to decrease year-round firm transportation entitlements by 3,600 Mcf/day on the Northern Natural pipeline effective November 1, 1994

In support of its request, NMU explained that one of its Large Volume Service (LVS) customers terminated its firm sales contract with NMU on September 1, 1994 and switched to the Company’s interruptible transportation service. This customer’s contract with NMU was for 3,600 Mcf/day.

The Commission notes that there is an exact match between the amount of contract demand the Company’s LVS customer decided to terminate and the amount of demand entitlement on Northern Natural that NMU was able to shed. Since this customer now buys its own gas, NMU no longer needs to reserve firm pipeline capacity (or gas supplies) to serve this customer. NMU estimated the cost savings due to this decrease would be approximately $303,307 per year and the Department estimated the savings would be approximately $308,707 per year. At the same time, there is no indication that this transaction by itself has reduced the Company's ability to serve its firm customers. For these reasons, the Commission will approve the requested decrease.

3. Request to allocate 9,920 Mcf/day of firm transportation entitlements on Northern Natural from TF12-Base (TF12-B) to TF12-Variable (TF12-V) effective November 1, 1994

According to Northern Natural's tariff, NMU's allocation of TF12-B and TF12-V depends entirely on how much gas moves through NMU's system during the summer. The more gas there is moving through NMU's system during the summer the higher NMU's allocation of less expensive of TF12-B. The Department indicated the cause of the requested reallocation was due to the Company's large transport customers using other pipelines during the period that Northern uses to determine the allocations between TF12-Base and Variable service.

The Commission will approve this requested allocation change. The allocation of firm transportation service between TF12-Base and Variable is determined by Northern Natural's tariff and is beyond the immediate control of the Company.

4. Request to allocate 50 Mcf/day of firm entitlements from the Large Volume Service class to all firm sales classes, effective November 1, 1994

NMU explained that the reallocation of 50 Mcf/day from the LVS customer class was made possible by conservation measures taken by one of the LVS customers. NMU indicated that the 50 Mcf/day in pipeline capacity could be used by its remaining customers.

The Commission will approve this request. It appears that the increase in NMU's customers (1,087 new residential and 113 new commercial customers in 1994 alone) will be able to absorb the 50 Mcf/day of pipeline capacity.

In fact, there is some concern that the growth in NMU's customers may outpace its current supply. While the Company's entitlements were sufficient for the 1994-95 heating season, the Department estimated that an increase of 648 customers in 1994-95 would require an additional 1,400 Mcf/day in firm entitlements.

To help clarify in a timely manner whether NMU should secure additional entitlements for the 1995-1996 heating season, the Commission will require NMU to do a design-day study for its firm customers and submit the study for review no later than August 15, 1995. Receipt of the study on that schedule will allow the Department and the Commission enough time to review the study and allow for any additional procurement that may be necessary before the beginning of the 1995-96 heating season.

ORDER

1. Northern Minnesota Utilities' (NMU's or the Company's) request to allocate demand costs to all of NMU's firm customers for 3,600 Mcf/day of firm entitlements between September 1, 1994 and November 1, 1994 is approved.

2. The Company's request to decrease the 3,600 Mcf/day decrease in year-round firm transportation (TF12-Base) entitlement on the Northern Natural pipeline effective November 1, 1994 is approved.

3. The Company's request to change the allocation of 9,920 Mcf/day of TF12-Base to TF12-Variable service effective November 1, 1994 is approved.

4. The Company's request to change the allocation of 50 Mcf/day of firm entitlement from the LVS customer class to all of NMU's firm customer classes effective November 1, 1994 is approved.

5. The Company shall submit a design-day study for its firm customers for the 1995-96 heating season no later than August 15, 1995.

6. Within 30 days of the date NMU submits its study pursuant to Ordering Paragraph 5, the Minnesota Department of Public Service (the Department) shall submit comments on the Company's filing.

7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)